



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	<b>02/25/00</b>	Bill No:	<b>SB 2175</b>
Tax:	<b>Special Taxes</b>	Author:	<b>Chesbro, et al.</b>
Board Position:	<b>Board Sponsored – Support</b>	Related Bills:	<b>AB 2894 (AR&amp;T)</b>

### **BILL SUMMARY:**

This bill contains Board of Equalization-sponsored proposals that would accomplish the following:

1. Add the requirement for persons whose estimated tax liability averages \$20,000 or more per month to submit payment by electronic funds transfer (EFT) for certain Special Taxes accounts (§§1 – 38, 40 – 50, 52 – 55, and 57 – 61).
2. Delete a typographical error in legislation added in 1999 (§§39, 51 and 56).

### **ANALYSIS:**

#### **Sections 1 – 38, 40 – 50, 52 – 55, and 57 - 61**

#### Current Law:

Under current Sales and Use Tax Law, the Revenue and Taxation Code requires any person whose estimated sales and use tax liability averages \$20,000 or more per month to remit amounts due by an electronic funds transfer. In addition, any person may pay by electronic funds transfer, even if the estimated tax liability averages less than \$20,000 per month. Under the law, if a person fails to timely remit those taxes, or fails to remit those taxes by an electronic funds transfer, or fails to file a timely return, that person becomes liable for a 10 percent penalty for the amount of those taxes. The maximum penalty that can be applied in any one reporting period is 10 percent (rather than three separate 10 percent penalties for paying late, for filing the return late and for remitting taxes by other than electronic funds transfer).

Under existing law, there are no provisions requiring mandatory payment of taxes or fees by EFT in any Special Taxes Department tax program where the Board collects the tax or fee.

#### Proposed Law:

This bill would add provisions requiring persons whose estimated tax liability averages \$20,000 or more per month to submit payment by EFT for the following Special Taxes programs:

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- Motor Vehicle Fuel License Tax
- Use Fuel Tax
- Cigarette and Tobacco Products Tax
- Alcoholic Beverage Tax
- Energy Resources Surcharge
- Emergency Telephone Users Surcharge
- Hazardous Substances Tax
- Integrated Waste Management Fee
- Oil Spill Response, Prevention and Administration Fee
- Underground Storage Tank Maintenance Fee
- Diesel Fuel Tax

This bill would also make conforming changes to the Fee Collection Procedures Law.

#### **COMMENTS:**

This bill would simply extend the EFT provisions from the Sales and Use Tax Law to certain Special Taxes programs. Extending these provisions would provide tax and fee payers with an additional customer service by offering an alternative payment method. Board staff has determined that 69 percent of the tax or fee payers that would be required to remit payments by EFT under this bill currently remit their sales and use tax payments by EFT. Additionally, 95 percent of the revenue expected to be paid by EFT from Special Taxes program accounts would be from taxpayers already paying their sales and use tax by EFT.

This bill would also eliminate the “float” period (float is the elapsed time between the taxpayer mailing a check and the check being deposited into the Board’s bank account) and the State of California would earn additional interest on tax payments deposited. The handling of check payments has inherent delays of processing and clearing time, or “float”, caused by the mail. This bill would eliminate a number of methods currently used by taxpayers to maximize the amount of float on disbursements. For example, envelopes can be pre-postmarked or mailed from remote sites. Checks can be drawn against remotely located banks or those which receive only a limited number of checks presented for payment each day. Consequently, a tax payment can be postmarked on the tax due date, but the payment may not be received and deposited by the State Treasurer for a week or more.

Furthermore, this bill would reduce the manual processing of checks.

#### **Sections 39, 51 and 56**

##### Current Law:

Under existing law, Sections 45156.5, 50112.4 and 55046 provide the Board with the statutory authority to relieve interest in cases where the reason for the late payment of tax is due to an unreasonable error or delay caused by a Board employee.

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Proposed Law:

This bill would correct a typographical error to clarify the Board's authority to relieve interest where the failure to pay tax is due to an unreasonable error or delay by the Board.

Comments

The Board of Equalization sponsored legislation in 1999 to strengthen and update the California Taxpayers' Bill of Rights. This legislation (Assembly Bill 1638, Assembly Revenue and Taxation Committee, Ch. 929, Stats. 1999) included provisions in the Special Taxes programs which authorized the Board to relieve interest where the failure to pay tax is due to an unreasonable error or delay by the Board.

For the most part, the language in the bill was identical to the language originally drafted by the Board. However, it appears that an "or" was mistakenly inserted in three separate sections of the bill which authorize the Board to relieve interest in cases where the reason for the late payment of tax is due to an unreasonable error or delay caused by a Board employee. The error was amended into Sections 45156.5, 50112.4 and 55046 of the Revenue and Taxation Code which affect the Integrated Waste Management Fee, Underground Storage Tank Fee, and Fee Collection Procedures Law, respectively. This additional word changes the intended meaning of the sections in which it appears. This proposal would simply remove the stray language.

**COST ESTIMATE:****Sections 1 – 38, 40 – 50, 52 – 55, and 57 - 61**

The one-time administrative costs associated with this bill would include bank fees, computer programming, and printing explanatory materials. The Board would incur some on-going personnel costs related to establishing and maintaining the new process; however, it is anticipated that these costs would be absorbable. It is also anticipated that there would be a small offsetting savings in personnel costs resulting from a reduction in the manual processing of checks.

**Sections 39, 51 and 56**

Removing the stray language inadvertently inserted in three separate sections of the Revenue and Taxation Code would not result in additional administrative costs for the Board.

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**REVENUE ESTIMATE:****Sections 1 – 38, 40 – 50, 52 – 55, and 57 - 61****Background, Methodology, and Assumptions**

During the 1997-98 fiscal year, the Special Taxes Department collected revenues amounting to \$5.4 billion from about 165,000 taxpayers. An analysis of the returns filed by these taxpayers indicates that 211 accounts have an estimated tax liability averaging \$20,000 per month or more. These taxpayers account for 57.4% of the total revenue collected by the Special Taxes Department.

Requiring these taxpayers to pay by EFT would result in the Board depositing payments approximately three days earlier than under the current system. It is estimated that the annual revenue remitted by those taxpayers that have an estimated tax liability averaging \$20,000 per month or more amounts to \$3.1 billion. Based on the current interest rate for the Pooled Money Investment Fund of 5.236%, the increased interest that the state would receive on deposited payments would amount to \$1.3 million annually. ( $\$3.1 \text{ billion} \times 3 \text{ days} \times 5.236\% / 365 = \$1.3 \text{ million.}$ )

**Revenue Summary**

The increased interest that the state would receive from requiring those taxpayers with an estimated tax liability averaging \$20,000 per month or more to make payments via EFT would amount to \$1.3 million annually.

**Sections 39, 51 and 56**

No revenue impact.

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